A Forrester Consulting
Thought Leadership Spotlight
Commissioned By GoCardless

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Recurring Payment Friction In The US

Rethink Your Payment Strategy To Save Your Customers And Your Bottom Line

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Over half of US payment decision-makers say that 7% or more of their payments have failed in the last 12 months. This has serious implications on cost of recovery, bad debt, customer churn, and profitability.

Introduction

Market forces are reshaping the payment landscape, and business buyers are becoming increasingly like consumers and expect better payment experiences. The COVID-19 pandemic has added pressure to under-resourced payment teams and increased the complexity of B2B payments, particularly for recurring payments, which has serious implications (reduced cash flow, high churn, and high admin costs) and increases frustration. Combined, these forces are accelerating digitalization within the payment landscape.

GoCardless commissioned Forrester Consulting to evaluate the state of recurring payments. To explore this topic, Forrester conducted an online survey with 700 payment decision-makers in B2B and B2C firms or B2B-only firms. This spotlight focuses on the 297 respondents surveyed in the US. We found that recurring B2B payments are pushing US firms to modernize their payments technology and update their payments operations.

KEY FINDINGS

- **Digital payment methods lead in the US, with the use of checks decreasing.** The COVID-19 pandemic has amplified the urgency to modernize payments. Most (70%) B2B decision-makers are embracing bank debit (an automated, pull-based bank-to-bank transfer, known as ACH debit in the US) more than check payment, which stands at 64%. With technology advancements in digital payments, checks are becoming burdensome for US firms to use, especially as more efficient payment models exist.
- **Despite ongoing investment, operational challenges remain.** Slow payment intake burdens US firms; more than half of payment decision-makers report that time to receive payments has increased in the last 12 months. Almost 80% of respondents say it takes them more than 20 days to receive payment. Additionally, manual processes hinder productivity and increase administration costs.
- **Payment failure decreases profitability for many firms.** Over half of US payment decision-makers say that 7% or more of their payments have failed in the last 12 months. This results in: 1) high costs of recovery (16% to 20% of the average payment size); 2) bad debt (20% or more of failed payments for over a third of US B2B business leaders); 3) customer churn (11% or more of failed payments for two out three decision-makers); and 4) lower profitability (40% reduction).
- **US payment leaders understand the role recurring payment solutions play in advancing their payment strategies.** Almost 70% plan to change their business model for selling their products or services. As a result, US business decision-makers respond to their customers' demands by looking to adopt recurring payment solutions. Leaders also realize that recurring payment solutions provide key benefits, such as increased payment acceptance; facilitation of international expansion; and improved operations, cost, and cash flow.

The US Payment Landscape Is Evolving, But Key Operational Challenges Hinder Progress

The recurring payments landscape in the US is evolving. With COVID-19 impacting the handling of manual payments like checks, the importance of expediting the payments modernization journey from paper to digital — and from manual to automated transactions — is becoming increasingly urgent. But US firms are not prepared and struggle to keep up.

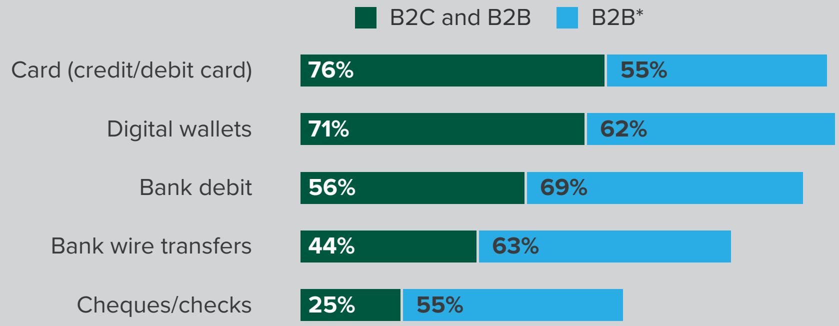
In surveying 297 payment decision-makers in the US, we found that:

› **The recurring payment method mix in the US is evolving, with a shift away from checks.** As businesses move away from checks as forms of payment, various electronic payment processing methods are becoming more important. In the US, B2B customers are embracing bank debit (70%) more than check payment (64%). Payment decision makers at B2C firms cite card (76%) and digital wallets (71%) as their top payment methods (see Figure 1).

› **Investment in people and technology is rife, but firms still face problems.** Decision-makers report that their firms use multiple technologies to handle recurring payments, primarily CRM (54%), billing (54%), and accounting (50%) systems. Despite these investments, many FTEs are involved in taking payments; almost 85% of US respondents say they have more than 20 FTEs managing payments.

Figure 1

"How do your customers pay for their recurring purchases (i.e., subscription payment model) and pay-per-use purchases (i.e., usage or consumption payment model)?"



Base: 117 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US
*Base: 180 payment decision-makers at B2B-only firms with responsibility for payment strategy in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, October 2020

Despite Investments, Challenges With Recurring Payments Still Exist

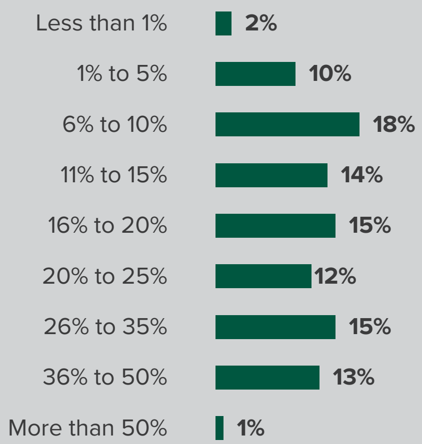
Regardless of who their customers are or what resources they have available, US firms face significant challenges managing numerous payment methods and the processes needed to support them, including:

- **Slow payment intake.** Over half of US respondents report that time to receive payments has increased in the last 12 months, with almost 80% saying it takes them more than 20 days. Additionally, many US firms face significant challenges relating to day sales outstanding (DSO), such as navigating banking procedures both inside and outside of the US and customers' bank transfers taking too long to process. Unsurprisingly, reducing DSO is a high or critical priority in the next year for over 80% of US payment decision-makers.
- **Manual processes.** For more than half of US leaders, top challenges when accepting recurring payments center on high operating costs, manual reconciliation, and lack of flexibility with billing.
- **Excessive administrative costs.** The fragmentation of payment methods and the management of new or changing payment models have come at a cost. All US decision-makers say their administrative costs have increased in the last 12 months; for most (70%), these costs have increased by 11% or more (see Figure 2).

Over 80% of US business leaders say it takes them more than 20 days to receive payment and state that it's a high or critical priority to fix for 2021.

Figure 2

"On average, what percentage have your administrative costs increased/decreased by over the last 12 months?"



Base: 232 payment decision-makers at B2B and B2C or B2B-only firms with responsibility for payment strategy in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, October 2020

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Payment Failures Affect The Bottom Line, Bad Debt, And Customer Churn

Payment failure is a common occurrence in the US. In fact, over half of US respondents say that 7% or more of their payments have failed in the last 12 months (see Figure 3). Payment failures create serious implications that become increasingly difficult to overcome, including:

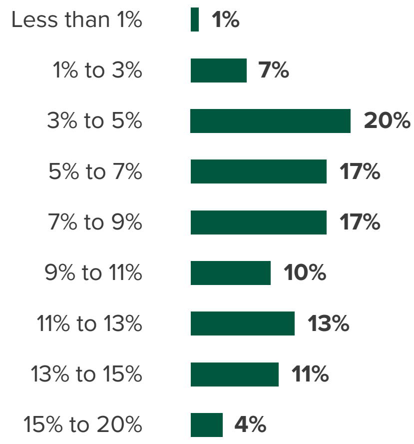
- **Cost of payment recovery.** Over half of decision-makers at B2B and B2C firms say the average cost of recovery for their usage or consumption-based payment model is over 11% of the average payment size. This figure is much higher for B2B-only firms, where lack of payments digitization and automation translates into more manual and time-consuming recovery processes; almost 80% have a cost of recovery at 16% to 20% of their average payment size.
- **Bad debt.** Bad debt is an expense that occurs when credit has been extended to a customer and is no longer considered to be collectable. More than two-thirds of US B2B-only payment leaders say 11% or more of failed payments result in bad debt; the figure remains lower but still significant for US B2C firms where more than one-third of leaders say the same.
- **Customer churn.** Two-thirds of US decision-makers report that 11% or more of their payment failures resulted in churn in the last 12 months. For a subscription business, managing customer churn is paramount. A lost customer does not just represent the loss from one transaction, but the loss of all the subsequent subscription revenue that customer would have generated. Payment failures can lead to both voluntary churn (i.e., where customer dissatisfaction drives churn) or involuntary churn (i.e., where a customer has the intention of staying subscribed, but payment failures force them out). From a merchant's perspective, preventing payment failures is a critical way to manage customer churn and protect their profits.
- **Lower profitability.** The results of payment failures (e.g., resources dedicated to recovering payment failures, lost customers, uncollectible revenue) have a direct impact on profit. Over 40% of decision-makers say their profitability decreases when payments fail. A shrinking bottom line, especially with recurring payments, stymies growth significantly — an especially detrimental outcome in vulnerable moments for business performance like business model innovation or disruption like the COVID-19 pandemic.

Failed payments can, at best, dampen stakeholder appetites for continued innovation and, at worst, eat away at profits and hard-earned customer goodwill. Leaders must equip their firms with the right tools to overcome these challenges.

Roughly four out of five US B2B-only decision-makers report their firms have a cost of recovery of 16% to 20% of their average payment size.

Figure 3

"To the best of your knowledge, what percentage of your payments failed over the last 12 months?"



Base: 297 payment decision-makers at B2B and B2C or B2B-only firms with responsibility for payment strategy in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, October 2020

US Firms Rely On Recurring Payment Solutions To Boost Their Payments Strategies

The already modernizing payment landscape is now on an accelerated track due to COVID-19. Forrester hypothesizes that "months of COVID-19 delivers years of change."[1] US decision-makers understand that having a carefully planned and executed recurring payment strategy improves customer experience, increases customer retention, and can lead to significant revenue uplift.

For these reasons, US business leaders show willingness to optimize their payment strategies and are taking steps to improve by:

- **Investing in solutions purpose-built for their needs.** Merchants are tired of stretching the use cases for technology built for one-time transaction models for their recurring payment needs. Nearly 60% of US decision-makers are planning to invest in or expand/upgrade investment in recurring payment providers.
- **Prioritizing payment methods that improve KPIs.** Over 60% of US decision-makers plan to upgrade to or implement a pull-based payment solution in the next 12 months or are already in the process of doing so (see Figure 4a).
- **Updating their business models.** More than 70% of US business leaders plan to change their business model for selling products or services as part of their payment strategy in the next one to five years — or are currently changing it (see Figure 4b).

> Over 60% of US decision-makers plan to upgrade or implement a pull-based payment solution in the next 12 months.

Figure 4a

"What are your plans to invest in a pull-based payment solution (the merchant initiates the transfer of funds from consumer to merchant)?"

44% Expanding or upgrading implementation

22% Planning to implement in the next 12 months

30% Implemented, not expanding/upgrading

4% Interested but no plans to implement

Base: 105 payment decision-makers at B2B and B2C or B2B-only firms with responsibility for payment strategy in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, October 2020

Figure 4b

"What are your plans, if any, to change your business model for selling your products or services?"

32% Planning to within the next one to three years

26% Currently changing

17% Already changed in the last one to three years

14% Planning to within the next three to five years

5% Interested but no plans to change

4% Already changed in the last three to five years

2% Not interested

Base: Variable payment decision-makers at B2B and B2C or B2B-only firms with responsibility for payment strategy in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, October 2020

US FIRMS STAND TO BENEFIT FROM RECURRING PAYMENT SOLUTIONS

Subscriptions are more popular than ever — in part due to technology advancements like cloud and mobility, as well as merchants' desire for stickier, more loyal customer relationships in mature, competitive markets. Instead of relying on legacy technology, designed for a world where subscriptions were less prevalent, US business leaders now see the benefit of business applications that cater to the expanding recurring revenue market.

By investing in a recurring payment solution, US payment decision-makers expect to benefit with (see Figure 5):

› **Improved payments success and customer retention.** Over 40% of respondents believe a recurring payments tool can support customer retention, improve sales, and reduce overall payment failure.

› **Facilitating international expansion.** US business leaders expect recurring payment solutions to enable easier market entry into new countries (36%) while also facilitating compliance with local regulations (34%).

› **Improved operations, cost, and cash flow.** Decision-makers are optimistic that this sort of solution will also improve efficiency with accepting payments by reducing DSO (44%), the time it takes to reconcile payments (34%), and the time required to chase unpaid invoices (40%). Additionally, more than a third of respondents expect lower costs, both administrative and transactional.

Figure 5

"What benefits, if any, do you expect to receive from adopting a recurring payment solution?"

Benefits of adopting a recurring payment solution

Improved payments success and customer retention

- **44%** Improved customer retention
- **41%** Reduced payment failures
- **42%** Improved sales by boosting payment acceptance
- **37%** Reduced churn

Facilitate globalization and adhere to compliance

- **34%** Facilitate compliance with local regulations
- **36%** Ease of market into new countries

Improve operations, optimize cost and cash flow

- **44%** Reduction in DSO
- **40%** Less time chasing unpaid invoices
- **41%** Increased visibility over cash flow
- **34%** Less time reconciling data from processors
- **35%** Lower transaction costs
- **31%** Lower administrative costs

Base: 297 payment decision-makers at B2B and B2C or B2B-only firms with responsibility for payment strategy in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, October 2020

All respondents said they expect their firm to benefit from recurring payment solutions.

Key Recommendations

Businesses are adapting to changing market dynamics — in technology, and regarding customer expectations — by adopting or expanding recurring revenue models. But in doing so, merchants must also navigate the complex landscape of recurring payments.

Forrester's in-depth survey of 297 payment decision-makers at B2B and B2C or B2B-only only firms in the US about their payment strategies yielded several important recommendations:

You're never done evolving your payment method mix. Though US consumers are famously stubborn in their payments behaviors, new and varied payment methods are gaining traction. Adoption has only accelerated in the COVID-19 pandemic. Business buyers, too, are moving away from checks toward more digital and automated payment methods like ACH debit. The complexity that comes with supporting various payment methods may be a necessary evil, but firms should prioritize (or incentivize customers to use) methods that positively impact KPIs like failure rates, DSO, and cost of recovery.

Make your payments team strategic, not just tactical. Most of the merchants in our study have large payment teams that spend their time on tactics like chasing unpaid invoices and trying to understand and remedy payment failures rather than on strategy and innovation. But payments are where businesses make or break their business goals, so they cannot be divorced from strategic work and can be a key element of a company's growth strategy.

Look for payment technology with recurring payments in its DNA. Many traditional payment solutions treat each transaction as an isolated incident while recurring payment solutions understand a transaction is only an event in the lifetime of a recurring customer relationship. As such, they are more capable of managing events like upgrades and downgrades.

Assess vendor partners with relevant global expertise. As a software-as-a-service (SaaS) business, the obstacles of international expansion lie not in carrier logistics and package delivery, but in regulatory compliance and localization. Payments are at the intersection of these two requirements. Find a payments partner with the domain expertise and experience in the relevant countries for your business.

Appendix A: Methodology

In this study, Forrester interviewed 700 payment decisionmakers at B2B and B2C or B2B-only firms in the UK, US, Australia, France, and Germany to evaluate the state of recurring payments across the globe. Of these decision-makers, 297 were from the US. Survey participants included decision-makers who had over five years of experience in payments at functional practitioner level and above. Questions provided to the participants asked about their recurring payments strategies. The study began in July 2020 and was completed in October 2020.

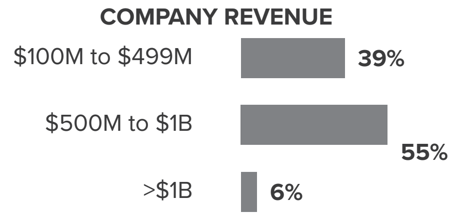
Appendix B: Demographics/Data

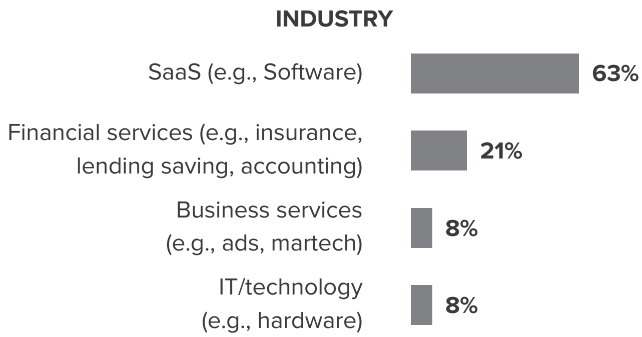
FIRMOGRAPHICS

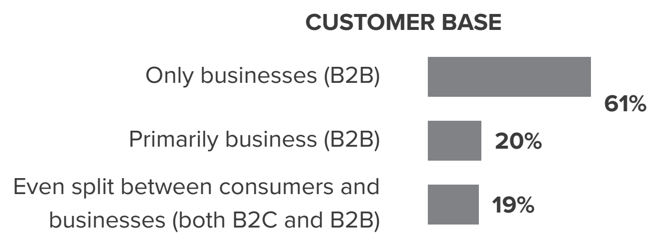
REGION

100%
Total: N = **700**

42%
United States: N = **297**







Base: 297 payment decision-makers at B2B and B2C or B2B-only firms with responsibility for payment strategy in the US
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, October 2020

Appendix C: Endnotes

[1] Source: "The COVID-19 Pandemic Alters The Payment Industry In Europe For Good," Forrester Research, Inc., September 18, 2020.

To read the full results of this study, please refer to the Thought Leadership Paper commissioned by GoCardless titled "Rethink Your Payment Strategy To Save Your Customers And Bottom Line"

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